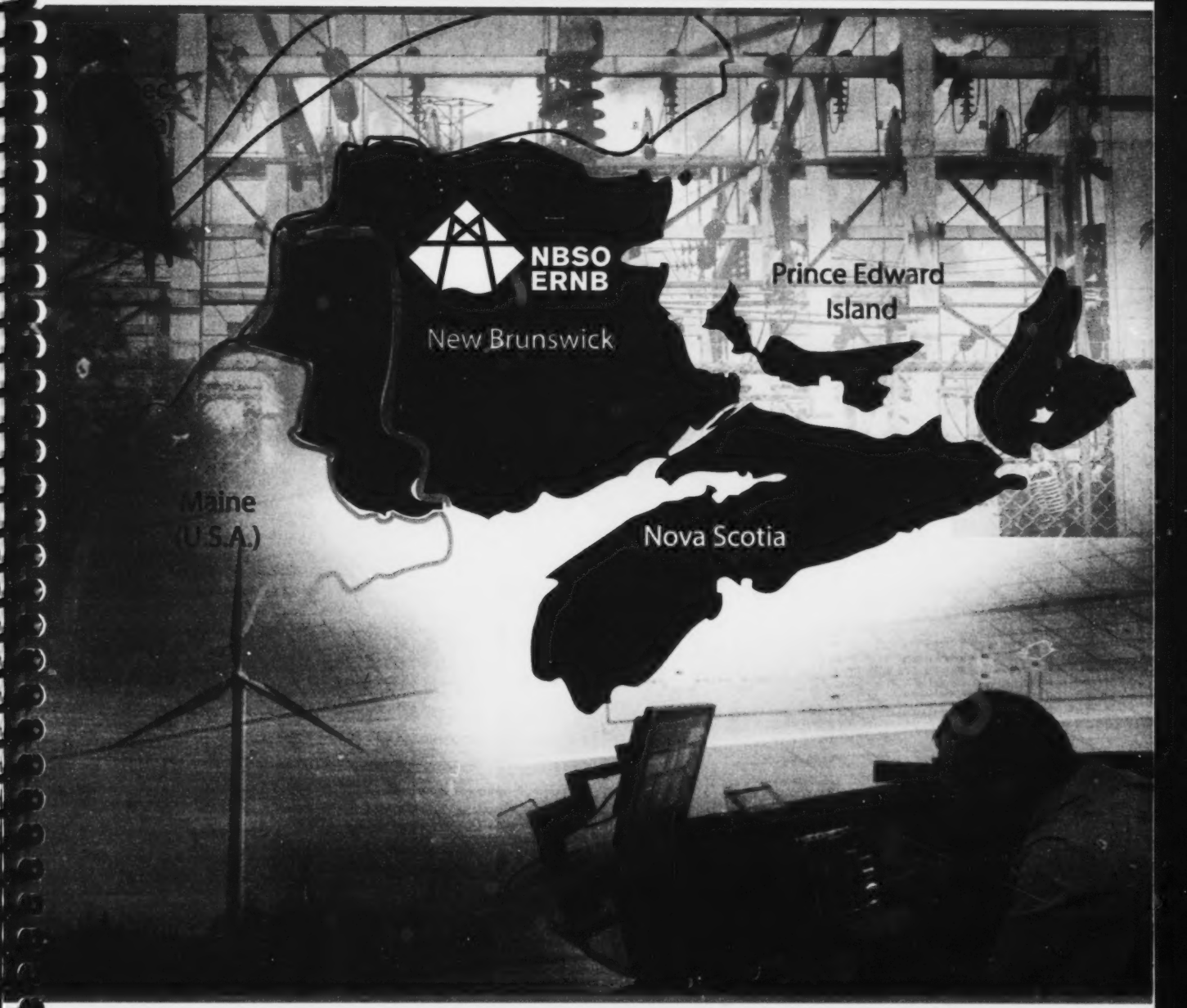
New Brunswick System Operator



Annual Report 2006 - 2007

New Brunswick Electricity Market at a Glance

Number of Interconnections 6

Interconnection Import Capacity. . . . . 1,864 MW
(2,164 MW after International Power Line (IPL) in-service)

Interconnection Export Capacity. . . . . 2,072 MW
(2372 MW after IPL in-service)

Scheduled Energy Receipts . . . . . 19,246 GWh

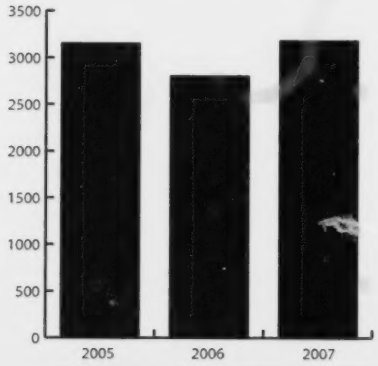
Scheduled Transmission Losses. . . . . 473 GWh

Scheduled Energy Deliveries. . . . . 18,773 GWh

Value of Electricity Transacted. . . . . $1.2 Billion
(Estimate based on the average Final Hourly Marginal Cost for the year)

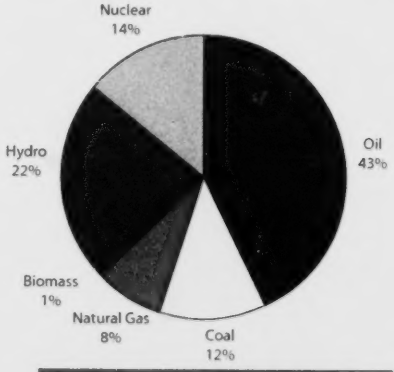
Transmission Lines. . . . . 6,723 km
(6,818 km after IPL in-service)

Peak Demand



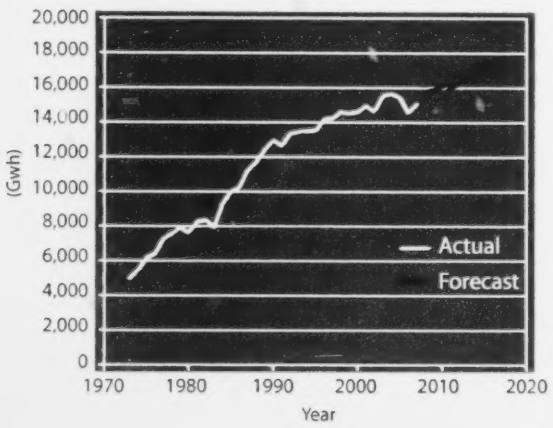
Peak Demand	
Fiscal Year	MW
2004-05	3154
2005-06	2807
2006-07	3187

Installed Generation Capacity in New Brunswick

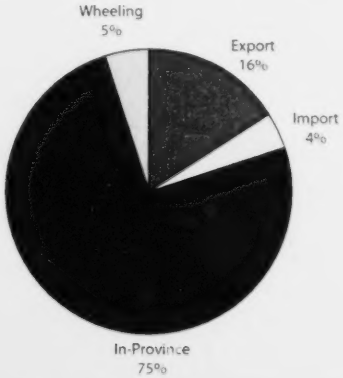


Generating Capacity	MW
Oil	1801
Coal	514
Natural Gas	353
Biomass	39
Hydro	898
Nuclear	570
TOTAL	4175

New Brunswick Annual Energy Consumption (Gwh)



Energy Transacted Through New Brunswick



Energy (GWh)	Point-of-Receipt (GWh)	Point-of-Delivery (GWh)	Losses (GWh)
Export	3,014	2,941	
Import	777	760	
In-Province	14,442	14,082	
Wheeling	1,013	980	
TOTAL	19,246	18,773	473

WHO WE ARE

NBSO is an independent not-for-profit, statutory corporation established on October 1, 2004 upon the proclamation of the New Brunswick ***Electricity Act***

WHAT WE DO

NBSO is primarily responsible for ensuring the reliability of the integrated electricity system and also for facilitating the operation of a competitive electricity market in New Brunswick. These responsibilities take the form of operation of the NBSO-controlled grid and administration of the Open Access Transmission Tariff (Tariff) and the Market Rules.

The Objects of the NBSO as set out in section 40 of the *Electricity Act*

- Directing the operation and maintaining the reliability of the NBSO-controlled grid
- Facilitating the operation of a competitive electricity market
- Procuring and providing ancillary services
- Maintaining the reliability of the integrated electricity system
- Working with responsible authorities outside New Brunswick to coordinate NBSO activities with their activities
- Entering into interconnection agreements with transmitters
- Participating with any standards authority in the development of standards and criteria relating to the reliability of the transmission system
- Undertaking and coordinating power system planning and development responsibilities to maintain and ensure the reliability of the integrated electricity system for present and future needs and for efficient operation of a competitive market

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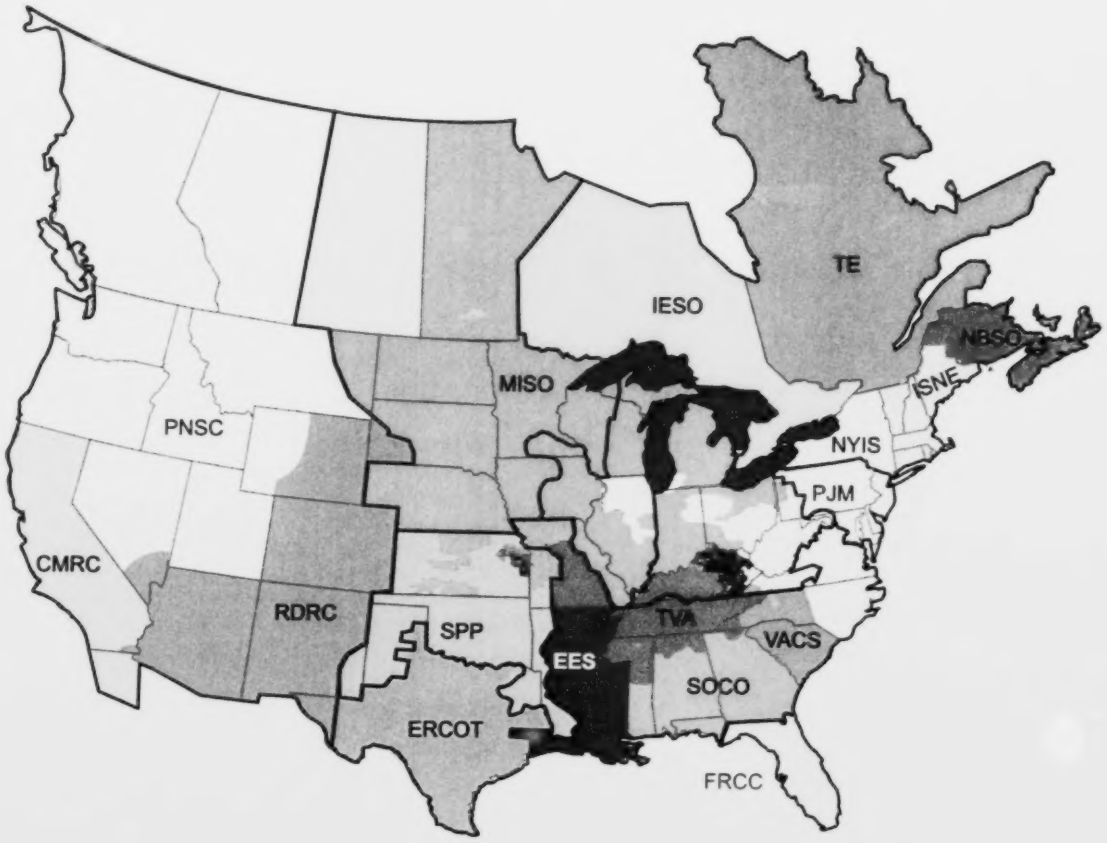

TE
IESO
NBSO
MISO
ISNE
PNSC
NYIS
PJM
CMRC
RDRC
SPP
TVA
VACS
EES
SOCO
ERCOT
FRCC

On behalf of the Board of Directors, President and CEO, management and staff of the New Brunswick System Operator, we are pleased to present the corporation's 2006-07 Annual Report.

Fiscal 2006/07 marked the second full year of operation for the New Brunswick System Operator (NBSO). The year was characterized by continued excellence in system reliability and an increased leadership profile for the NBSO in regional reliability, system planning and market development.

As detailed elsewhere in this report, the NBSO is obligated to follow very stringent reliability standards and criteria. We are pleased to report that all reliability targets were met or exceeded during the year. Additionally, NBSO staff worked closely with both Canadian and American authorities on the creation of a self-regulating Electrical Reliability Organization (ERO) which will span North America. NBSO will continue to play a major role in the region in the development and enforcement of uniform standards which will come into effect in 2007/08.

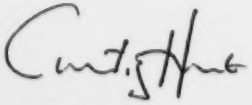
From a system planning point of view, the profile of greenhouse gas and global warming issues rose dramatically during the year. The need to generate electricity from renewable sources, particularly wind, is absolutely critical if environmental targets are to be achieved. New Brunswick and the Maritimes have been identified as areas with high potential for wind development, and during the year the NBSO completed a comprehensive Wind Power Integration Study for the Maritimes. With the province of New Brunswick's commitment to bring 400 MW of wind generation on line by 2010, the NBSO is taking a leadership role to facilitate the integration of this initial 400 MW, while at the same time ensuring that additional wind and other renewable source generation can be accommodated as well.

Equally important as the development of future generation sources is the planning of adequate and reliable transmission. The existing New Brunswick-New England (NB-NE) interconnection will see an increase in capability from 700 MW to 1000 MW when the 2nd Tie project is completed late in 2007. In anticipation of this additional capacity, NBSO conducted dozens of System Impact Studies during fiscal 2006/07. Additionally, several transmission projects are being considered in New England which, if built, could further increase transfer capability on NB-NE interconnection. NBSO is working cooperatively with its counterpart in New England and with the governments of New Brunswick and Maine to study all scenarios and determine optimum development strategies.

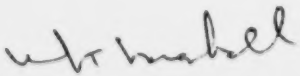
In terms of market development, 2006/07 saw the introduction of a bid-based demand response program for industrial loads. Additionally, the NBSO secured the registration of several External Dispatchable Facilities (EDFs) during the year which in turn led to successful participation, for the first time, of EDFs in the New Brunswick hourly energy market. Interest in these programs and the provision of ancillary services will continue to grow as stakeholders become increasingly aware of opportunities to participate in the market. Toward that end, NBSO senior managers have initiated a series of individual meetings with potential participants. These meetings, in conjunction with NBSO's annual open information sessions held each April, allow the organization to both increase awareness of opportunities in the market and stimulate discussion of topical issues such as barriers to participation, wind integration and the impact of environmental and regulatory considerations.

In summary, 2006/07 was a very good year for the NBSO. Reliability continued to be the cornerstone of our operation and we enhanced our leadership role in system planning and market development. Credit for accomplishing these many tasks, within budget, goes to our skilled, innovative and diverse staff. They are the energy at the heart of the NBSO. Our thanks and appreciation goes to each of them.

On a go-forward basis, the NBSO will continue to play a leading role in regional reliability and system planning, while at the same time working with stakeholders to identify and remove barriers to market participation. As the NBSO embraces these new opportunities, we are pleased to welcome two new members to our Board of Directors. Anne Hickey and Brian Curry joined the Board in April, 2007 and will add valuable experience and expertise to the development of the NBSO's strategic initiatives.



Curtis Howe
Chair



William K. Marshall
President & CEO

SYSTEM RELIABILITY

System Reliability Functions

- Maintaining the reliability of the integrated electricity system
- Conducting system impact studies
- Coordinating activities with members of NERC and NPCC
- Providing load following and regulation service to the system in order to supply the in province customer load while maintaining scheduled flows on interconnections within established limits
- Determining system needs for energy and ancillary services
- Coordinating planned outages of transmission and generation resources
- Approving energy transactions and schedules
- Issuing dispatch instructions

NBSO is the Reliability Coordinator for the Maritimes Area, which includes New Brunswick, Nova Scotia, Prince Edward Island and a portion of northeastern Maine in the United States. System reliability is the main focus of NBSO. NBSO is obligated to follow the Standards and Criteria of both the North American Electric Reliability Corporation (NERC) and the Northeast Power Coordinating Council, Inc. (NPCC) in the design and operation of the NBSO-controlled grid. Significant reliability initiatives in 2006 included a NERC audit, system restoration drills and continued operator training.

NERC Reliability Readiness Audit

In August 2006, NERC conducted a Reliability Readiness Audit of NBSO. The Audit is one of the commitments of NERC and the industry following the blackout of August 14, 2003, to strengthen the reliability of the North American bulk power system. Independent audits are conducted of Reliability Coordinators, Balancing Authorities, Transmission Operators, and other key entities that support the reliable operation of the bulk power system to assess their preparedness to meet their assigned reliability responsibilities.

The audit team concluded that NBSO as the Reliability Coordinator, Balancing Authority and Transmission Operator has adequate facilities, processes, plans, procedures, tools, and trained personnel to perform the Reliability Coordinator, Balancing Authority and Transmission Operator functions necessary to maintain the reliable operation of the bulk power system. The audit team also noted the following prominent features of the NBSO system:

- NBSO has a robust transmission system with a 345 kV ring connecting loads and generation. Congestion management is not often needed to reduce line flows within its area.
- It has one synchronous tie to the eastern interconnection. This tie requires close monitoring and NBSO along with ISO-New England has developed monitoring procedures to effectively control its operation.
- When the NBSO needs to open its New Brunswick to New England tie, it tests generator response tests by separating from the eastern interconnection with 100 MW from New Brunswick to New England flowing on the tie and collecting data on governor response. This test was cited in the Reliability Readiness Audit report as an example of excellence in NBSO's reliability readiness. NBSO, due predominantly to its geographic location, is the only entity in North America that is able to carry out this function.

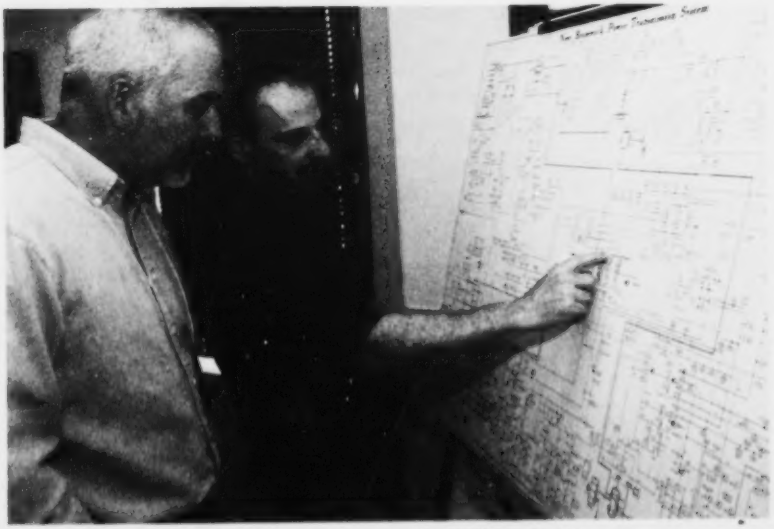
System Restoration

System restoration is paramount to the NBSO role as Reliability Coordinator for the Maritimes Area in the event of a partial or complete blackout. Integral parts of emergency preparedness are the two Power System Restoration Drills that NBSO holds every year. These drills demonstrate that NBSO has the capability to recover from a complete blackout and restart the power system without assistance from any outside entity. This year over 110 participants attended these drills on behalf of system operators, utilities and large industries in New Brunswick, Nova Scotia, Prince Edward Island and New England.

System Operator Seminars

System Operators attend two seminars annually that are designed to update and inform operators of any unusual incidents, pre and post-seasonal assessments, as well as highlight any major changes in the energy business affecting system operations. NBSO hosted the 57th Annual NPCC Operator Seminar in Fredericton in May 2006, with attendees from all the independent system operators in the NPCC region.

In addition to the reliability initiatives undertaken in the past year, the NBSO-controlled grid continued to meet all NERC and NPCC standards and criteria, which is a credit to the efforts of employees of NBSO, the transmission owners, and the various market participants.



Terry Singleton, NB Power Distribution and Customer Service Corporation (L)
Bruce Hickey, NBSO (R)

Additional Observations from the NERC Audit

- NBSO updates Energy Management System displays as changes on the electrical system are made and produces copies of the displays for all field personnel use and permanent records.
- NBSO has clearly identified critical elements and developed a display showing their current status and the status of contingent elements that have a significant effect on them
- NBSO has a comprehensive three-year apprenticeship program to provide initial system operator training
- NBSO has close coordination activities between the day-ahead planning group and the operations personnel and documents the transfer of the planning information to the operators
- NBSO introduced a state-of-the art document management system
- NBSO conducts a system restoration drill which includes participation by large industrial customers, transmission owners, generation operators, municipal electric cooperatives, and its neighbouring reliability coordinator
- NBSO primary and backup control systems use the same type of equipment, and either system can be operated from the primary or back-up site

SYSTEM PLANNING

The fiscal year 2006/2007 was an extremely busy one for the NBSO in the area of Power System Planning. In addition to providing support for the normal day-to-day operations and developing the annual 10-Year Outlook report, NBSO planning staff was involved in numerous studies of projects that have the potential to affect how the transmission system is constructed and operated in the Maritimes and New England.

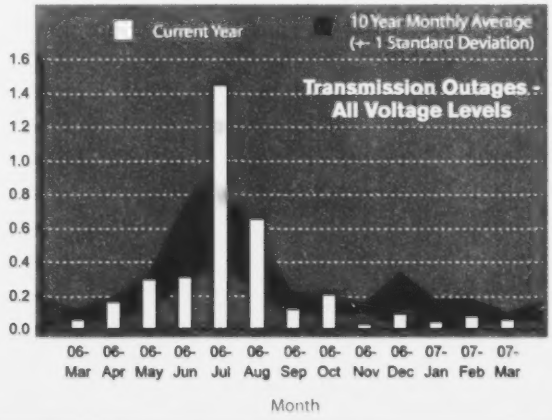
The primary focus was on the New Brunswick to New England (NB-NE) interconnection capability, several new wind power developments of varying sizes in the Maritimes Area and the connection of the Lower Churchill hydro generation project to New Brunswick. Each new project requires as a minimum a Preliminary Analysis (PA) followed by a detailed System Impact Study (SIS). In addition NBSO has been involved with inter governmental studies concerning power systems and markets.

System Studies Completed in Fiscal 2007

Description	Total MW	No. of Applications
Generation (Preliminary Analysis)	606	5
Load or Point to Point; (Preliminary Analysis)	1611	5
Generation (System Impact Study)	826	10

Transmission Studies

In 2007 the NB-NE interconnection will have its capability for flows from NB to NE increased from 700 MW to 1000 MW when the second 345 kV tie-line goes in-service. Although the initial PA and SIS planning studies for this interconnection have been completed for a few years, numerous operational studies have been conducted this year by a joint study team comprised of representatives from NBSO, New Brunswick Power Transmission Corporation, Independent System Operator-New England (ISO-NE), Central Maine Power and Bangor Hydro-Electric.



Control Performance Standards

CPS1 provides a measure of the Balancing Area's (BA) performance, giving a frequency-sensitive evaluation of how well the respective BA met its demand requirements. The target of 100% was consistently exceeded by NBSO with an average for the fiscal year of 158%.

CPS2 is a statistical measure designed to limit unacceptably large net unscheduled power flows. The target of 90% was consistently exceeded with an average for the fiscal year of 99%.

Performance Measure	Performance Standard	NBSO Performance (average for fiscal year)
CPS1	≥100%	158%
CPS2	≥90%	99%

Control Performance Standards are set by NERC

New England presently has several Transmission projects under review that, if built, will affect the NB-NE Interconnection capability. These include a new interconnection from the Maine Public Service (MPS) system to the New England grid as MPS is presently only interconnected to New Brunswick. In addition, ISO-NE is studying an interconnection between the Orrington and Maine Yankee terminals in New England. NBSO has been closely monitoring these studies.

In addition, both NBSO and ISO-NE have conducted various high level scenario analyses in order to determine additional transmission reinforcements that would be required to increase the NB to NE interconnection capability from 1000 MW to 3000 MW. These studies assume that sufficient generation from low emission resources (wind, hydro, biomass, tidal, nuclear) would be brought on-line in Atlantic Canada to meet the stated transfer levels. In a joint effort in 2007, NBSO and ISO-NE plan on performing analysis and sharing specific details on the various options to accomplish these higher transfer levels.

Wind Generation Opportunities

The Maritimes Area has world class winds that could potentially be developed to produce thousands of megawatts. At the end of the fiscal year there was approximately 180 MW of wind power in operation in Prince Edward Island, Nova Scotia and Northern Maine and an additional 96 MW under construction in New Brunswick.

Wind development is expected in the next few years and its intermittent nature will bring operational challenges to the area. Given the implementation of Renewable Energy Portfolio requirements in the Maritime Provinces and New England states, NBSO estimates that a total of 1500 MW to 2000 MW of wind power could be operating in the Maritimes Area within five years. This is significant and its relative penetration level will place the Maritimes Area among the world's highest areas of wind power concentration.

In an attempt to be prepared for such levels of wind development NBSO initiated wind integration studies for the region in 2005 and continued in 2006. The objective is to maximize economic wind development while preserving reliable operation. Study reports are available on the NBSO website and key findings include:

- Proposals for changes to the NBSO Tariff that would introduce charges for wind projects under Schedule 3 for Regulation and Load Following
- Combined operation of the Maritimes Area as a single balancing area is needed
- Operations synergies should be pursued with ISO-New England and Hydro Québec
- Improvements are required for both project specific and regional wind forecasts

SYSTEM PLANNING

NBSO Market Responsibilities

- Administer the Open Access Transmission Tariff (OATT) and the New Brunswick Electricity Market Rules
- Enhance market operations through amendments to the Market Rules
- Facilitate the operation of a competitive electricity market
- Process requests for transmission service, facility outages; and schedules for energy flows
- Settle market transactions
- Monitor the market

Lower Churchill Development

The Lower Churchill hydro generation project in Labrador is the largest generation project currently under consideration. In relation to this project, Newfoundland and Labrador Hydro has applied to the NBSO for two 740 MW Point-to-Point transmission reservations. One reservation has the 740 MW injection into New Brunswick through the existing HVDC stations with Québec and the other reservation is for a 740 MW injection into the Salisbury New Brunswick terminal. The latter would be supplied through an underwater HVDC cable as well as a new DC to AC inverter station near Salisbury. NBSO has completed Preliminary Assessments for both routes and will complete an SIS for each in the spring and summer of 2007.

Inter Governmental Studies

In February 2007 Governor John Baldacci of Maine and Premier Shawn Graham of New Brunswick, signed a Memorandum of Understanding with the objective to "... enhance the Mutual Benefits of the Maine/New Brunswick Electrical Interconnections". NBSO has been working to provide information and analysis to government officials in both jurisdictions. A preliminary report was produced in June and a final report is targeted for the end of 2007.

The Council of New England Governors and Eastern Canadian Premiers (NEG/ECP) met in June 2007 in Prince Edward Island. Energy was the primary theme and discussion topics included renewable energy, energy market efficiencies, energy conservation, and transportation. NBSO participated in various preparatory meetings to provide data, analysis and recommendations that led to the resolutions considered by the NEG/ECP. This included formal conferences in Charlottetown, Prince Edward Island in October and Québec City in February. This work is expected to continue in 2007 as the NEG/ECP has charged the Northeast International Committee on Energy to work with the system operators to pursue market efficiencies and increase renewable energy development.

During the fiscal year, NBSO processed and approved seven applications for Accreditation to become a Market Participant; bringing the total of Accredited Market Participants to 18.

MARKET DEVELOPMENT AND MARKET OPERATIONS

Much activity took place in 2006/2007 with respect to Market Development and Market Operations. Market development focused on increased market participation in redispatch and ancillary services, and on increased efficiencies through the use of interconnections with other systems. Market Operations continued in accordance with the NBSO mandate. Enhancements were made in processes and systems to increase controls, adapt to changing requirements, and improve efficiencies.

Market Development Activities

Market development continued to focus on facilitating entry for new participants in the supply of redispatch energy and ancillary services. These are two critical aspects in the development of a physical bilateral market and also areas with the greatest potential for competition. Specific market rule changes were implemented with respect to Bid-Based Demand Response, direct supply of ancillary services by standard service customers, the use of purchases from external markets as external dispatchable facilities, and reducing the lead time on dispatch data changes from 2 hours to 1 hour.

The Market Advisory Committee (MAC) is a multi-stakeholder group that provides advice to the NBSO and plays a key role in ensuring a co-ordinated, consistent and effective voice for market stakeholders. The MAC is an efficient mechanism for review of market issues and provision of recommendations to the NBSO Board of Directors.

In the current fiscal year the MAC recommended the addition of two new positions on the committee, one representing alternative energy source developers, and the other representing the Energy Efficiency and Conservation Agency of New Brunswick. With these two new positions the MAC is better positioned to be responsive to the unique needs of these two sectors. Such representation is clearly warranted given the trend of increasing fossil fuel prices, climate change, and various emissions-related issues.

Additional market development issues which prompted much discussion by the MAC include, the lack of liquidity in the redispatch energy market, the allocation of the residual monthly cost, and wind power integration.

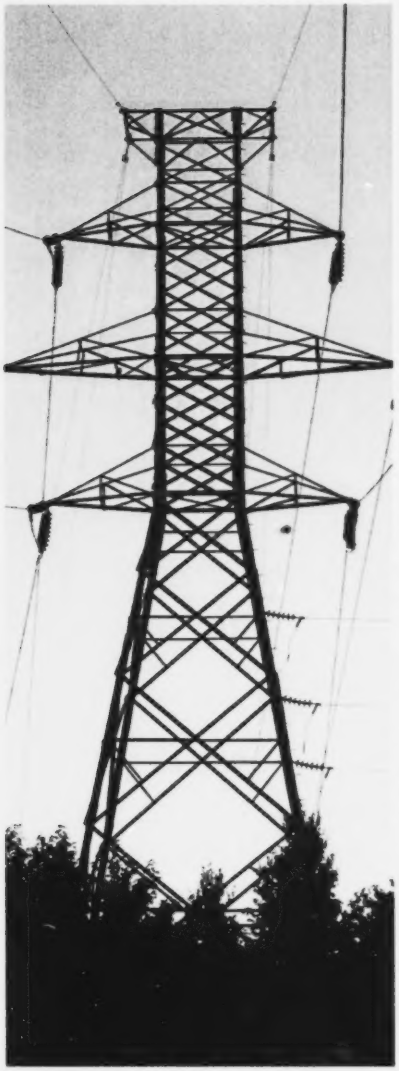
The annual NBSO information session and one-on-one discussions with potential suppliers of these services increased the knowledge of potential suppliers about how to provide these services and the benefits of providing them. Those communications also led to a better understanding at NBSO of the capabilities and interests of suppliers. NBSO also worked with potential suppliers of redispatch energy to identify appropriate revisions to market rules and procedures in order to remove barriers to new entry.

August 2006 - NBSO Holds Request for Proposals (RFP) for Capacity-Based Ancillary Services

The Public Utilities Board had directed competitive procurement of capacity-based ancillary services (CBAS) through a Request for Proposals. NBSO proposed that a cap on the level of self-supply of CBAS be established to create sufficient demand to attract competitive bids. With PUB approval to cap the level of self-supply at 80%, NBSO proceeded with the first RFP in the summer of 2006, with service to commence November 1, 2006. NB Power Generation Corporation was the successful bidder.

MSB Project Team. L to R Carey Richard, Gene Butland, Luther Eroh, Ian MacPherson, Kevin Nicol.
Absent from Photo: Wendy Smith and Paul MacDonald

MARKET DEVELOPMENT AND MARKET OPERATIONS



Market Operations Activities

Market operations continued along the path of continuous improvement in market processes, market management systems, and knowledge of both NBSO staff and market participant staff. In addition, the execution of various components of the assurance plan confirmed successful implementation of the market and helped identify areas for further improvements and additional controls.

Several new types of transactions arose during the fiscal year requiring adaptation of processes and systems. Examples of these include the wheeling of energy from wind generation resources in northern Maine through the New Brunswick system to New England. Bids into the New Brunswick redispatch market from external dispatchable supplies were received and dispatched for the first time.

Market rule compliance, metering, and settlement review and audit work provided added assurance of the performance of the settlement function. This work was part of an ongoing process of evaluation with the purpose of providing increased levels of assurance to various stakeholders affected by the settlement process.

A significant project undertaken by NBSO IT staff during the fiscal year was the development of a Market Settlement and Billing System (MSB). The MSB application is computer software developed for settlement of the New Brunswick Electricity Market in accordance with the Tariff and Market Rules. This includes settlement with market participants, interconnected utilities, and transmitters for transmission services, ancillary services, energy variance imbalance, congestion management re-dispatch, and residual monthly amounts pertaining to miscellaneous costs. The outstanding innovative and multidisciplinary teamwork of the IT staff was instrumental to the success of this achievement.

MSB is tightly integrated with other market systems including the Open Access Same Time Information System (OASIS), the Energy and Capacity Scheduling system, the Dispatch Data Submission system, the Market Optimization and Dispatch system (MOD), and the Transmission Metering system. MSB automates much of the settlement process and adds built-in controls and data checks that promote data integrity and accuracy of results.

All of the work undertaken to date better positions NBSO to be able to incorporate new market participants, new types of transactions and new types of generation into market operations, several of which have been identified in the Market Development Section of this report.

REGULATORY ACTIVITIES

NBSO was active on a number of regulatory activities both internal and external to the New Brunswick electricity market.

The Province of New Brunswick announced a new 10-member Energy and Utilities Board during the fiscal year; replacing the former New Brunswick Board of Commissioners of Public Utilities.

During the fiscal year NBSO appeared before the Board in relation to the following matters:

1. Limit of Self-Supply of Ancillary Services
   (Decision rendered August 2, 2006).

2. Collection and Dispersal of Energy Imbalance Funds
   (Decision rendered November 24, 2006).

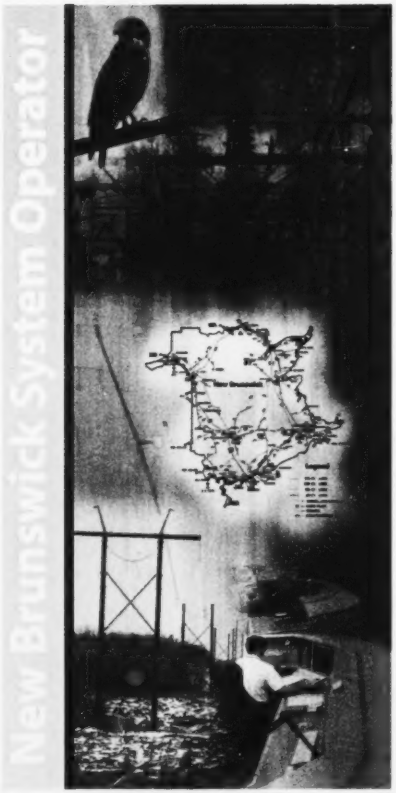
NBSO formally intervened on an application submitted by New Brunswick Power Distribution and Customer Service Corporation for approval of a change in their charges, rates and tolls.

On February 15, 2007 the United States Federal Energy Regulatory Commission (FERC) issued a decision to revise its pro forma tariff upon which the current New Brunswick tariff is based. NBSO reviewed the amendments and proposes to apply to the Energy and Utilities Board to make similar amendments to the New Brunswick tariff.

NBSO participated in several proceedings before the Maine Public Utilities Commission and presented our views on matters of mutual interest.

NBSO was a significant contributor in Maritime Electric Company, Limited's stakeholder consultation process in relation to the preparation of a filing of an Open Access Transmission Tariff with the Island Regulatory and Appeals Commission.

2007 INFORMATION SESSION



NBSO hosted its second annual General Information Session on April 23rd and 24th in Fredericton, New Brunswick. The two-day session was well attended by approximately 160 participants representing present and potential Market Participants, regulators, and educational and government representatives. Last year's session was generic in nature as the NBSO had only been in existence since 2004. This year's session was more focused and specific in terms of areas of technical and commercial interest to prospective market participants and featured presentations by a number of industry leaders from across Canada.

Topics discussed included:

- Opportunities for Wind Generation and Wind Policy Considerations
- Seams Coordination Between NBSO and each Adjoining Market Area
- Reliability
- Open Season for 2nd NB-NE Tie
- New Brunswick-Maine Memorandum of Understanding
- Transmission Studies
- Reserves and Reserve Sharing
- Bid-Based Demand Response
- Dispatchable Loads (Ontario Experience)
- Smart Meters and Supporting Communications Systems
- Overview of Current Smart Meter Program for Saint John Energy
- University of New Brunswick Proposed Load Control Research and Demonstration Program

New Brunswick's Energy Minister, the Honourable Jack Keir, was the guest speaker at a luncheon held on April 23rd. Minister Keir outlined the government's policy initiatives to have energy become an economic driver in the Province.

In addition to the information session NBSO has participated and made presentations at many industry and policy meetings. These include the Council of New England Governors and Eastern Canadian Premiers, the Canadian House of Commons Natural Resources Committee, and industry conferences in the UK, the United States and various provinces in Canada. Topic areas have generally been related to wind power integration, transmission development, electricity market issues and renewable energy.

NBSO LAUNCHES NEW WEBSITE

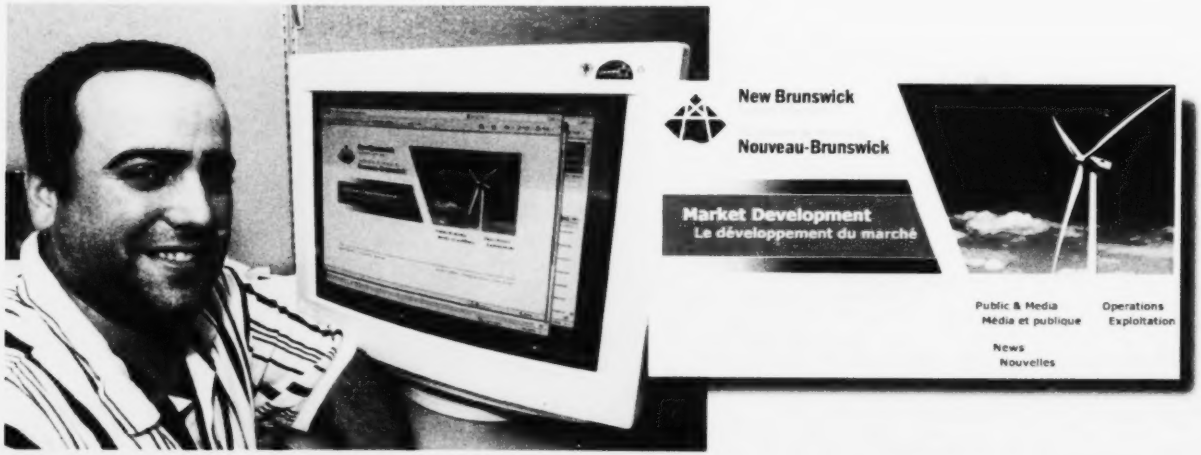
The NBSO website has been redesigned to streamline business processes and improve service to Market Participants. A clearer structure, simplified navigation and improved functionality have greatly improved access to NBSO information.

The main design objective was to develop a website that would not only be user friendly, but incorporate the best features of independent system operator websites in North America. The home page, presented in both French and English, is the central point of entry to the website. Featured on the home page are three main areas - Public and Media, Operations and News.

The **Public and Media** section provides an overview to those who have little contact with the NBSO or the energy industry, but wish to become better informed. Within the Public and Media zone you can find content on a range of subjects. The **Operations** section provides interested parties with more detailed information relative to the operation of the New Brunswick electricity market. The **News** section highlights the latest NBSO news items that have been posted to the website.

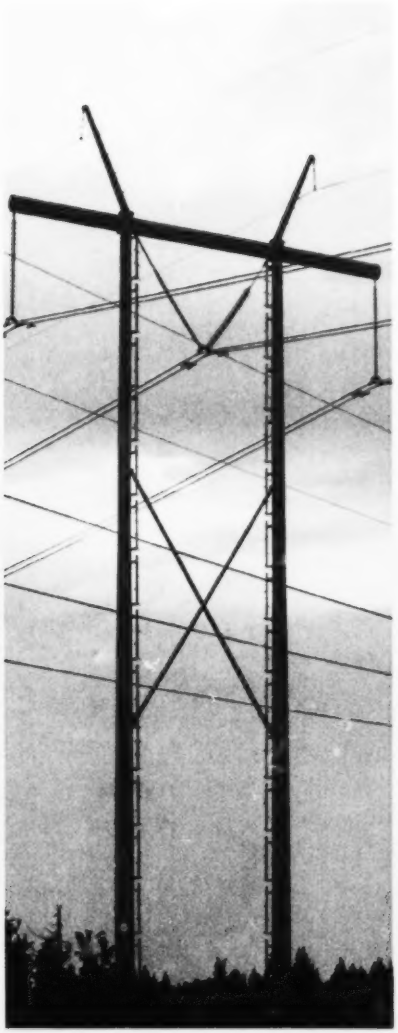
The new website is a collaborative effort between NBSO Systems Support Staff, with their high level of technical skills and knowledge of the NBSO infrastructure, and a professional website developer.

The site will continue to evolve as new levels of information are added and new ideas and requirements emerge.



Paul MacDonald, NBSO

Open Season for Second New England Tie



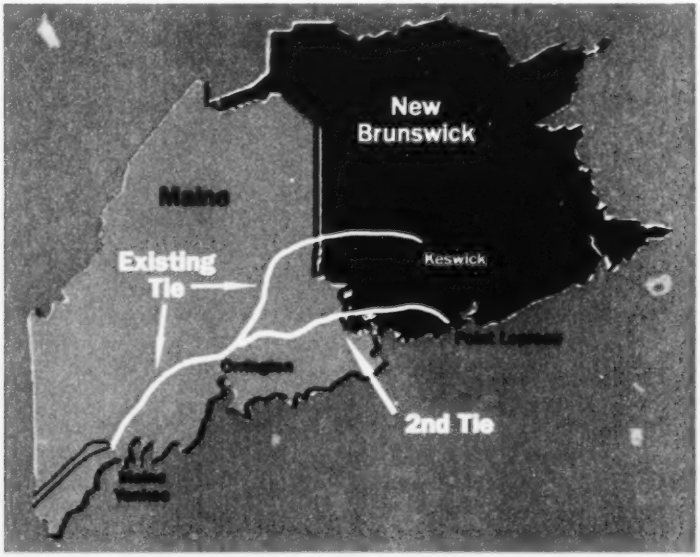
The Maritimes Area is geographically and electrically connected to the rest of the large Eastern Interconnection through a single synchronous tie to New England. A second 345 kV tie-line between New Brunswick and Maine is under construction and scheduled to be completed by December 2007. This will significantly improve:

1. Market access (export capacity into, out of and through New Brunswick will increase by 300 MW)

2. System reliability (loss of one interconnection will not leave Maritimes Area isolated from the interconnected New England power system); and

3. Operating efficiency in the region (reductions in system losses).

NBSO will be holding an Open Season through which the 300 MW of additional transmission capacity will be made available to the market. Details on the nature of, the requirement for and the implementation process regarding an Open Season under the NBSO Tariff were provided at the Information Session in April. The Open Season period is from July 3rd to August 31st 2007, during which time accredited Market Participants may apply for all or a portion of the incremental capacity.



ELECTRIC RELIABILITY ORGANIZATION

The United States Energy Policy Act of 2005 authorized the creation of a self-regulatory Electric Reliability Organization (ERO) that spans North America, with FERC oversight in the United States. The legislation makes compliance with the NERC reliability standards mandatory and enforceable as a matter of United States law.

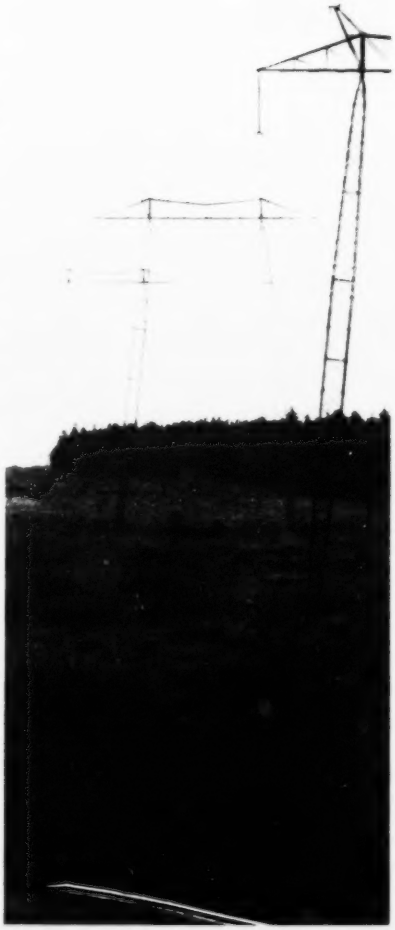
The FERC has issued rules that outline the procedures under which the ERO may create reliability standards and in addition delegate authority to a Regional Reliability Organization (RRO) to propose and enforce those reliability standards.

The NPCC is an organization that establishes regionally-specific reliability criteria for the northeastern United States and eastern Canada. The geographic area of NPCC totals approximately one million square miles and includes New York State, the six New England states, Ontario, Québec and the Maritime provinces. This represents a current NPCC membership composition by load that is approximately 45% U.S. and 55% Canadian.

NPCC has been designated as the RRO for its service territory in the United States and will enforce compliance of both NERC standards and NPCC criteria.

In Canada, unlike the United States where wholesale electricity is a federal responsibility, regulatory responsibility here is predominantly provincial. To address this, the US legislation respects the international character of the bulk electric system by ensuring that the ERO applies for and receives comparable recognition and approvals from government authorities in Canada. Towards this end NERC has submitted applications to the National Energy Board and the provinces of Alberta, British Columbia, Saskatchewan, Manitoba, Ontario, Québec, Nova Scotia, and New Brunswick.

In New Brunswick the Electricity Act empowers NBSO as the agency responsible for reliability. Currently NBSO is working with the New Brunswick Departments of Energy and Justice, as well as NPCC and NERC to recognize the ERO and RRO for New Brunswick and clarify their relationships with NBSO.



DEVELOPMENT OPPORTUNITIES

The future of NBSO and the electricity sector in Atlantic Canada is bright, with significant development opportunities and various challenges on the horizon. Work initiated in the past year will need to continue and likely expand while new projects are expected. Known areas that need to be addressed and that will impact various aspects of NBSO's mandate include:

- System Impact Studies for Lower Churchill and wind projects
- Continued wind integration analysis
- Coordination with proposed Point Lepreau II feasibility study
- Consideration of new biomass, co-generation and tidal demonstration projects
- Transmission requirements for the Maritimes and New England
- Increased market opportunities expected after in-service of the 2nd New England Tie
- Operational cooperation in the Maritimes
- Improved operation across interconnection seams with Québec and New England
- Consideration of regional market expansion and integration
- Requirements to address climate change through reduced greenhouse gas emissions

Successful completion of such activities requires effective use of NBSO's most important resource, its people, and collaboration with various industry stakeholders. The combination of its industry expertise and independence from market interests positions NBSO to work effectively with others on both local and regional issues.

Employee Development

The development of current and future employees is an integral part of our culture and will continue to be a priority. NBSO continually reviews and updates the training needs of our employees to ensure that the changing demands of our industry are met. We take pride in helping our employees manage their careers.

NBSO BOARD OF DIRECTORS AND CORPORATE OFFICERS

Curtis Howe, P.Eng. | Chairman |
President, Mariner Partners, Inc., Saint John, NB

Bill McMackin | Chair, Audit Committee |
Retired Partner - KPMG Chartered Accountants

Brian H. Curry, CA | Board Member |
Retired Partner, Curry & Betts,
Chartered Accountants
Member, Human Resources Committee

Robert W. Saintonge
| Chair, Human Resources Committee |
Financial Consultant and Former Deputy Minister,
Province of New Brunswick

William K. Marshall, P.Eng. | President and CEO |

Anne Hickey | Board Member |
Labour Market Information Analyst
Service Canada
Member, Audit Committee

Kevin C. Roherty, BBA, LL.B.
| Secretary and General Counsel |

MARKET ADVISORY COMMITTEE

Jessie Davies | Chair |

"The MAC, now in its third year, continues to provide a strong voice for industry stakeholders while closely monitoring market conditions. In the last year the MAC undertook various activities including recommendations to the NBSO Board of Directors for revisions to the Market Rules to facilitate market development."

The Market Advisory Committee (MAC) is a multi-stakeholder group that currently includes members from the following sectors:

- NB Power Generation - Kirby O'Donnell
- Other Generators - Stacy Dimou, Energy Consultant
- Marketers - Ed Howard, Integrys Energy
- Transmission Customers - Ron LeBlanc, MECL
- Transmitters - Brian Scott, NB Power Transmission Corporation
- NB Power Distribution & Customer Service Corporation - Blair Kennedy
- Other Distributors - Dan Dionne
- Industrial Self Generators - Andrew Booker, Lake Utopia Paper
- Large Industrial Consumers - Ron Beaulieu, Fraser Timber Ltd.
- Non-eligible Customers - Jessie Davies, Retired
- Environmental Interests - Dr. Andrew Secord, St. Thomas University
- New Brunswick System Operator - George Porter

MANAGEMENT TEAM

William K. Marshall, P.Eng.
President and CEO

Lynne West, CMA
Controller

Alden Briggs, P.Eng.
Director, Power System Engineering

Ross Stairs
Director, Power System Operations

Kevin C. Roherty, LL.B.
Secretary and General Counsel

George Porter, P.Eng.
Director, Market Development & Settlement

Jane Murray, MEd.
Manager, Training

Dave Daley, P.Eng.
Director, Infrastructure & System Support

NBSO
ERNB

Mission:

To plan, direct and operate an effective integrated electric power system by:

- *maintaining reliability and adequacy of electric power to the Maritimes Area*
- *achieving an open competitive market that optimizes net economic benefit*

NEW BRUNSWICK SYSTEM OPERATOR

Financial Statements
March 31, 2007
(in thousands of dollars)

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Management's Statement of Responsibility 29

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Statement of Cash Flows 32

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June 25, 2007

AUDITORS' REPORT

To the Board of Directors of
New Brunswick System Operator

We have audited the balance sheet of **New Brunswick System Operator** as at March 31, 2007 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

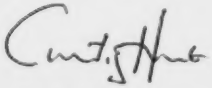
The financial statements of the New Brunswick System Operator (NBSO) were prepared by management, in accordance with Canadian generally accepted accounting principles which involve the use of significant accounting judgments and estimates in selecting and applying appropriate accounting principles.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains systems of internal controls necessary to provide reasonable assurance that the accounting records are reliable, and that the corporation's assets are properly safeguarded. Internal Audit conducts reviews to ensure that the corporation's internal controls and procedures are adequate, consistent, and applied uniformly.

The independent audit firm of PricewaterhouseCoopers LLP, Chartered Accountants, has audited and reported on the financial statements. Their opinion is based on their audit conducted by them in accordance with Canadian generally accepted auditing standards to obtain reasonable assurance that the financial statements are free of material misstatement.

The Board of Directors is responsible for evaluating management in the performance of their financial reporting responsibilities, and has approved these financial statements. The Board of Directors reviews and recommends approval of the financial statements and meets periodically with management, the independent auditors and the internal auditor, concerning internal controls and all other matters relating to financial reporting.

William Marshall,
President and Chief Executive Office



Curtis Howe,
Chairman

BALANCE SHEET

	2007 $	2006 $
Assets		
Current assets		
Cash	1,970	723
Accounts receivable	11,077	9,884
Prepaid expenses	95	89
	13,142	10,696
Property, plant and equipment (note 3)	2,739	2,804
	15,881	13,500
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	10,760	9,973
Deferred regulatory liabilities (note 4)	2,172	610
Current portion of capital lease obligations (note 5)	72	65
	13,004	10,648
Accrued benefit liability (note 6)	210	113
Obligations under capital lease, net of current portion (note 5)	2,667	2,739
	15,881	13,500

Approved by the Board of Directors

Chairman

Director

Statements of Operations and Deficit

	2007 $	2006 $
Revenues		
Transmission:		
Point-to-point tariff	24,702	26,350
Network tariff	51,867	50,315
Power factor penalty	1,170	889
Pre-tariff wheeling contract	–	348
	77,739	77,902
Ancillary services	14,715	12,535
Miscellaneous	914	634
	93,368	91,071
Expenses		
Transmission	77,739	77,902
Ancillary services	6,517	5,905
Operation, maintenance and administration	6,954	6,243
Amortization	65	55
	91,275	90,105
Other income (expense)		
Interest income	38	7
Interest expense on short-term debt	–	(7)
Interest expense on capital lease	(259)	(242)
	(221)	(242)
Deferral of regulatory liabilities	(1,872)	(610)
Net profit for the year	–	114
Deficit – Beginning of year	–	(114)
Deficit – End of year	–	–

STATEMENTS OF CASH FLOWS

	2007 $	2006 $
Cash provided by (used in)		
Operating activities		
Net profit for the year	–	114
Items not affecting cash		
Amortization	65	55
Net change in non-cash working capital items	1,150	795
Net change in accrued benefit liability	97	87
	1,312	1,051
Financing activities		
Decrease in short-term indebtedness	–	(400)
Principal repayments under capital lease	(65)	(55)
	(65)	(455)
Net increase in cash during the year	1,247	596
Cash – Beginning of year	723	127
Cash – End of year	1,970	723
Cash flows from operating activities include		
Interest paid	–	7
Interest received	38	7

1 Nature of operations

New Brunswick System Operator (NBSO) is an independent, not-for-profit entity responsible for directing the operation of the transmission system, administering the Open Access Transmission Tariff (OATT), and is the reliability coordinator for the Maritime area.

NBSO has its own independent Board of Directors and its functions are carried out by the employees located at New Brunswick Power Transmission's (NBPT) Energy Control Centre, 77 Canada Street, Fredericton, NB. Some are direct employees of NBSO (7) while the remainder (approximately 37) are seconded under contract from NBPT.

Income arising from the operations of NBSO is exempt from federal and provincial income taxes.

2 Significant accounting policies

The accompanying financial statements have been prepared in accordance with the Canadian generally accepted accounting principles and reflect the following significant accounting policies.

Regulation

NBSO is subject to regulation by the New Brunswick Energy and Utilities Board (EUB) (formerly the NB Public Utilities Board). The regulations cover such matters as tariff rates and accounting policies. NBSO's accounting policies conform to generally accepted accounting principles in the electricity transmission industry in Canada and also reflect the policies prescribed by the EUB. Costs and credits are deferred on the balance sheet as regulatory assets and liabilities for amounts which would otherwise be included in earnings, when authorized to do so.

Revenue recognition

Monthly settlements of market participants' energy imbalance and residual monthly costs are not reflected in NBSO's Statement of Operations since they do not represent revenues or expenses of NBSO as NBSO merely acts as an intermediary in the settlement process. In this role, NBSO receives and disburses funds to/from market participants in the month following the month transactions occurred. See note 9 for a summary of transactional volumes occurring during the year.

2 Significant accounting policies (continued)

Revenue recognition

NBSO's approved tariff, the Open Access Transmission Tariff (OATT) allows recovery of NBSO's operating expenses through Schedule I services provided to market participants. The revenue from Schedule I is earned monthly, weekly, daily or hourly dependent upon transmission reservations. Market participants are then billed for such services in the subsequent month.

Transactions from bilateral contracts between market participants are not included as transactions of NBSO.

Ancillary services and other miscellaneous revenues are recognized as the related services are provided.

Property, plant and equipment

NBSO has an arrangement with NBPT in which it leases the Energy Control Centre, which has been treated as a capital lease in accordance with the recommendations of EIC 150 "Determining whether an arrangement contains a lease". This property, plant and equipment is carried at cost less accumulated amortization. Amortization has been computed at rates equal to the principal lease repayments using the effective interest method, which is sufficient to amortize the cost of the property, plant and equipment over their estimated useful lives as follows:

Buildings	32 years
Equipment	7 years

Foreign exchange transactions

Foreign currency revenues and expenses are translated into Canadian dollars at the rate of exchange prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange prevailing at the balance sheet date. The resulting foreign currency exchange gains and losses are included in the determination of net income for the year.

Cash

Cash consists of cash and short-term deposits with original maturities of three months or less held with banks.

Employee benefit plans

Benefit obligations for defined benefit post-retirement plans are determined by independent actuaries using the project benefit method prorated on service and management's best estimate of salary escalation and retirement ages of employees.

2 Significant accounting policies (continued)

Employee benefit plans

The benefits charge or credit recognized consists of:

- the aggregate of the actuarially computed cost of benefits provided in respect of the current period's service;
- imputed interest on the accrued benefit obligation;
- the amortization of past service costs from plan amendments, over the average remaining service period of employees active at the date of amendment; and
- the amortization of experience gains or losses, in excess of 10% of the accrued benefit plan obligation at the beginning of the period over the average remaining service period of employees.

Defined contribution plan accounting is applied to multi-employer defined benefit pension plans for which the corporation has insufficient information to apply defined benefit plan accounting. The benefit cost is the corporation's required contributions to the plan.

Management estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

3 Property, plant and equipment

			2007	2006
	Cost $	Accumulated amortization $	Net $	Net $
Building	2,414	26	2,388	2,402
Equipment	445	94	351	402
	2,859	120	2,739	2,804

The above assets represent the assets of the Energy Control Centre leased from NBPT (note 5).

NOTES TO FINANCIAL STATEMENTS

4 Deferred regulatory liabilities

The following regulatory liabilities were included in the "Deferred Regulatory Liabilities" line on the balance sheet:

	Unforeseen future events $	Surplus (Deficit) $	Total $
March 31, 2006	300	310	610
Distributions in year	–	(310)	(310)
Deferrals in year	–	1,872	1,872
March 31, 2007	300	1,872	2,172

The PUB approved the retention by NBSO of $300 out of last year's surplus to cover unforeseen future events. As a result, this amount of the surplus has been deferred in accordance with the PUB's decision. Any expenditures to be applied against this reserve must now be approved by the EUB.

In addition, the PUB decided that it is not appropriate for NBSO as a not-for-profit entity to have a surplus or a deficit. The surplus of $310 reported in 2006 was distributed to market participants in December 2006, and the current years surplus has been deferred and is expected to be rebated later in 2007.

5 Obligations under capital lease

Effective April 30, 2005, the company entered into an agreement with NBPT under which the company became responsible for the full cost of the Energy Control Centre. This arrangement has been accounted for as a capital lease. At the commencement of this arrangement, the assets of the ECC amounted to $2,859. Interest is being charged at 9.32% and monthly payments of principal and interest amount to $20 for the building and $7 for the equipment.

5 Obligations under capital lease (continued)

The minimum annual lease payments under this arrangement are as follows:

	$
Year ending March 31, 2008	324
2009	324
2010	324
2011	324
2012	324
Thereafter	5,954
	7,574
Less: imputed interest	4,836
	2,739
Due in less than one year	72
Due after one year	2,667
	2,739

6 Employee future benefits

NBSO has the following plans providing pension and other post employment benefits to its employees.

Pensions

NBSO's employees participate in a multi-employer contributory defined benefit pension plan, administered by the Province of New Brunswick under the Public Service Superannuation Act ('PSSA'). The plan provides pensions to employees of the Provincial Government and certain Crown corporations and agencies based on length of service and highest successive five-year average salary.

The plan was 92.1% funded as of April 1, 2005, the date of the most recent external valuation of the plan. The Province has advised participating corporations that the unfunded liability is being funded through annual escalating payments. Payments by NBSO to the plan during the year to March 31, 2007 were $76 (2006 - $67), and future payments, if required, will increase by the annual growth in CPI plus 2%. Future actuarial valuations may change the funding requirement.

6 Employee future benefits (continued)

Executive Supplemental pension benefits

NBSO also has an unfunded, non-contributory pension plan that provides supplemental pension benefits over and above those provided by the PSSA to certain designated executives.

Retirement allowances

The retirement allowance program is an unfunded non-contributory plan that provides a lump-sum payment upon retirement equal to one week of pay for each full year of employment to a maximum of 26 weeks of pay for employees and two weeks of pay for each full year of employment to a maximum of 250 days of pay for designated executives. Previous years of employment with New Brunswick Power prior to the formation of NBSO qualify toward the participants entitlements under this plan.

Other post retirement benefits

Employees of NBSO are entitled to a life insurance benefit of $15 payable in the event of death after retirement. In addition, executives who retire after age 60 are entitled to an extension of their group benefits to age 65 at the company's expense.

The net benefit cost recognized during the year to March 31, 2007 in relation to the executive supplemental pension benefits, retirement allowances and other post retirement benefits plans was $98 (2006 - $87). No payments were made to beneficiaries of these plans during the year (2006 - $nil).

Information about NBSO's executive supplemental pension benefits, retirement allowances and other post retirement benefit plans as at March 31, 2007 (measurement date) based on extrapolations of actuarial valuations prepared as at March 31, 2006 (2006 - April 1, 2005) for accounting purposes are as follows:

	2007 $	2006 $
Accrued benefit obligation	385	294
Unamortized past service costs and actuarial losses	(175)	(181)
Accrued benefit liability	210	113

6 Employee future benefits (continued)

The significant actuarial assumptions adopted in measuring NBSO's accrued benefit obligation and net benefit cost for the executive supplemental pension benefit, retirement allowance and other post retirement benefit plans are as follows:

	2007	2006
Discount rate at end of year used to determine the accrued benefit obligation	5.25%	5.25%
Discount rate at beginning of year used to determine the net benefit cost	5.25%	5.75%
Rate of compensation increase at end of year to determine the accrued benefit obligation	2.50%	2.50%
Rate of compensation increase at beginning of year used to determine the net benefit cost	2.50%	2.50%

A 9% and 5% annual rate of increase in per capita costs of covered medical care and dental benefits respectively has been assumed for 2008. Medical cost inflation is assumed to decrease to 5% by 2011 and remain at that level thereafter.

7 Financial instruments

Fair value

NBSO's financial statements include cash, accounts receivable and payable, deferred regulatory liabilities and capital lease obligations. Due to the short-term maturity of cash, accounts receivable and payable the carrying value of these instruments are reasonable estimates of their fair value. The fair value of deferred regulatory liabilities has not been determined as it cannot be readily measured as there are no specified repayment terms. The fair value of the capital lease obligations payable to NBPT is affected by changes in the prevailing level of interest rates. The NBSO has not entered into any financial instruments to hedge the fair value exposure associated with this item. The carrying value of this obligation is believed to be a reasonable approximation of its fair value.

Credit risk

Financial instruments which potentially subject the corporation to concentrations of credit risk primarily consist of accounts receivable billings due from market participants, the majority of which relates to 2 customers, namely New Brunswick Power Generation and New Brunswick Power Distribution and Customer Service for $9,550 (2006 - $9,504). No allowance has been provided for accounts receivable at March 31, 2007 as management considers all accounts receivable to be probable of collection. NBSO's tariffs establish specific periods for the adjustment of settlement invoices as originally billed and for challenges to amounts billed for a particular service month.

7 Financial instruments (continued)

Credit risk

Subsequent invoices issued during the settlement adjustment period "true up" amounts previously billed. After all true up invoices are issued during the settlement adjustment period, market participants may challenge the amounts billed for a particular service month. If NBSO agrees with the provisions of the challenge, a final invoice is issued for that service month. As a result, NBSO is exposed to credit risk until all settlement adjustments and final invoices for each service month are finalized and liquidated. However, NBSO is allowed to recover bad debt losses from the remaining market participants in future billings.

As per OATT, Section 7.1, each invoice shall be subject to adjustment for any errors in calculations, meter readings, estimating or otherwise up to twelve months after the date of original issuance. These invoices may be challenged by market participants up to 10 days after the date of original issuance.

Interest rate risk

NBSO is exposed to interest rate risk as future changes in the prevailing level of interest rates affects the cash flows associated with its cash. The corporation has not entered into any financial instrument contracts to hedge this interest rate exposure.

Currency risk

NBSO is subject to minimal foreign exchange risk as less than 1% of its revenues and less than 0.5% of its expenses are denominated in foreign currencies. NBSO has not entered into any foreign exchange contracts to minimize the effects of foreign exchange fluctuations on its operations or theses financial statements.

8 Economic dependence on related parties

NBSO has entered into the following agreements and contracts with the NB Power group of companies, which are related through common ownership by the Province of New Brunswick.

Operating agreement with transmitters

In order to be able to comply with the provisions of the Electricity Act and the Market rules, NBSO has entered into agreements with transmitters to direct the operation of the Transmission system, direct the operation and maintain the reliability of the System Operator controlled grid and maintain the reliability of the integrated electricity system. Tariff charges collected and remitted to NBPT for the year to March 31, 2007 amounted to $77,597 (2006 - $77,763).

8 Economic dependence on related parties (continued)

Agreement for the secondment of employees from NBPT

In order for NBSO to fulfill the tasks and functions necessary to meet its responsibilities under the Electricity Act, designated employees of NBPT who work at its Energy Control Center are seconded to NBSO. Under the terms of the agreement NBSO is responsible for the full cost of the Energy Control Centre and its employees. For the year ended March 31, 2007, NBSO remitted $5,025 (2006 - $4,930) to NBPT. The current agreement ends March 31, 2013. Unless written notification of termination is given by either party on or before the commencement of the last year of the contract period, the agreement is renewed for a further five years, to a maximum of four more renewals (March 23, 2033).

Services agreement with NBPT

NBPT agrees to provide certain services (e.g. human resources, payroll, benefits administration, business information systems, etc.) for the direct employees of NBSO plus the members of NBSO Board of Directors. The current agreement ends March 31, 2008. Unless written notification of termination is given by either party on or before September 30, 2007 the agreement will automatically renew for a one year period. In subsequent years, renewal will be automatic unless written notice of termination is given on or before September 30 of the previous year. NBPT charged NBSO $37 (2006 - $89) for such services during the year ended to March 31, 2007.

Ancillary services contracts with NB Power Generation, NB Power Nuclear, and NB Power Colson Cove

The market rules require that NBSO obtain ancillary services under contract from Market Participants for registered facilities. The contract terms are tied to the estimated shutdown dates of the contracted facilities. Amounts paid to these parties during the year ended March 31, 2007 for such contracts amounted to $6,517 (2006 - $5,905).

Service agreement for Network Integration Transmission Service

NBSO agrees to provide and NB Power Distribution and Customer Service agrees to take and pay for Network Integration Service in accordance with the provisions of Part III of the Tariff and this agreement. Service under this agreement can be terminated by either party, upon the expiration of 12 months written notice to the other party. Revenues under this agreement amounted to $51,464 (2006 - $50,094) for the year ended March 31, 2007.

In addition to the above agreements, transmission tariff revenues include $19,609 (2006 - $24,506) charged to the NB Power group of companies, as market participants.

At March 31, 2007, accounts receivable included $9,760 (2006 - $9,334) and accounts payable and accrued liabilities included $8,867 (2006 - $8,289) due from/to the NB Power group of companies respectively.

NOTES TO FINANCIAL STATEMENTS

9 Energy imbalance and residual monthly costs (unaudited)

The total energy imbalance and residual monthly costs that represent the settlement of the transactional volume of energy and energy related products in NBSO's market during the year ended March 31, 2007 amounted to $18,164 (2006 - $27,767). The above amounts include $16,478 (2005 - $26,107) credited to and $16,735 (2006 - $27,451) charged to the NB Power group of companies.

In 2006, as a result of a complaint received from a market participant regarding the method of settling energy imbalances and residual monthly costs prior to the PUB's approval of the mechanism used (that took effect May 1, 2005), the PUB ordered NBSO to recollect the $7,829 distributed during the period October 1, 2004 to April 30, 2005 and redistribute these funds using an approved method. This issue was resolved in the November 24, 2006 decision of the PUB where it approved NBSO's proposal to redistribute the net amounts with each party involved, rather than recollecting the full $7,829. As a result, amounts totalling $675 were recollected from parties who received monies in the period in question (October 1, 2004 - April 30, 2005) and paid to Northern Maine Independent System Administrator, Inc.